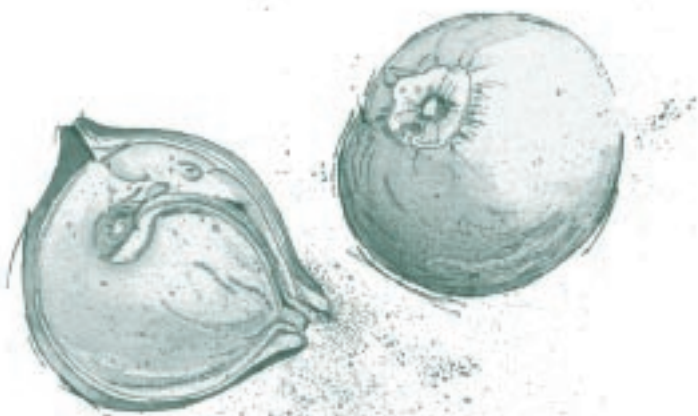




**Taxes
And Your
Retirement**



*California
Public
Employees'
Retirement
System*



California Buckeye

Aesculus californica

Found mostly in California's foothills and coastal ranges, the California buckeye is a shrub or small tree that blooms with showy white or pale pink flowers in early summer, which later produces these large, shiny brown seeds. The California Indians prepared and ate the buckeye seeds much like they did acorns, leaching out the toxins and bitter taste by boiling them in water to make a flour. The Indians sometimes used ground, untreated seeds to catch fish. Seeds thrown into pools would stupefy fish, making them easy to catch.

Taxes and Your Retirement

General Information

Understanding taxes can be confusing and perhaps a little intimidating at times. To help you understand your tax liability for your CalPERS retirement allowance, this brochure provides you with important information and simple steps to help understand and calculate your tax responsibilities.

As a CalPERS retiree or benefit recipient, the first step is to determine the amount of your gross allowance that is taxable income. Although you are retired, you may still have to pay both State and federal income taxes. And just like your working years, you must fill out a tax withholding form.

While this brochure has information on some tax laws that you need to be aware of, you should request additional information regarding the taxability of your retirement allowance from the Internal Revenue Service, California State Franchise Tax Board, or from your tax advisor.

Bigleaf Maple

Acer macrophyllum

Found along the Pacific Coast from British Columbia to Southern California, this handsome and showy shade tree is popular in our state. The wood of the Bigleaf Maple is used to make veneer, woodenware, and furniture. Indians fashioned this wood into canoe paddles for their boats, and the sap can be used as maple sugar.





To get started, you will need the following documents to assist you while using the worksheets provided (see pages 4 through 10) to calculate your retirement tax liability:

- your 1099R Income Statement, and
- Notice of Benefit Approval letter (PERS-BAS-11). If you do not have a copy of this letter, contact CalPERS at (800) 352-2238.

Since tax laws change often, the information in this booklet applies only to retirees whose retirement effective date is after July 1, 1986. If you retired on or before July 1, 1986 and have questions about your taxes, please contact your tax consultant or local IRS office.

Determining Your Tax Withholding

1099R Income Statement

Each January, you will receive a 1099R form containing information on your CalPERS income from the previous calendar year. You will find a box in the 1099R form, labeled “Gross Distribution,” which contains the total amount of your gross allowance. This is normally the accumulated annual gross amount of the payments you received dated January 1 through December 31. The box labeled “Taxable Amount” contains the amount of your gross allowance that is taxable income. You will need these two



figures to help you calculate your taxable pension on the worksheets provided in this brochure.

You should be aware that CalPERS participates in the Combined Federal/State Filing Program. This means the California State Franchise Tax Board or your state of residence may access your reported income.

Calculating Your Tax Liability

Federal law requires CalPERS to use certain methods to calculate and report the annual tax-free portion of your retirement allowance. The tax-free portion is determined based on the previously taxed contributions you made when you were working. At different times during your work years, some contributions may have been deducted before taxes and some after taxes. The total amount may be found on your Notice of Benefit Approval Letter (PERS-BAS-11) under the heading “Taxed Contributions.”

CalPERS uses one of three separate tables to determine your monthly or annual already taxed portion. Your retirement effective date will help you determine which table applies to you (*Table A on page 5, Table B on page 7, or Table C on page 9*). Once you determine which table applies to you, use the worksheet provided to estimate your monthly or annual tax-free portion of your allowance.



There are two questions you need to ask yourself to determine which table to use:

- what was my retirement effective date?
and; if applicable,
- what option did I choose at retirement?

CalPERS Tax Worksheets

Please note: If you were age 75 or over on your retirement effective date, you cannot use these tables. Instead, the IRS requires you to use the “General Rule” to determine your monthly/annual tax-free portion. Information on the “General Rule” can be found in IRS Publication #939, available on the IRS web site (www.irs.ustreas.gov) or can be ordered by calling the IRS at (800) 829-1040.

Review the following tables and select the one that applies to you.

Retirement Effective Date

after July 1, 1986

but *before* November 19, 1996

(regardless of option chosen at retirement)

Table A (on page 5)

-or-

Retirement Effective Date

after November 18, 1996

but *before* January 1, 1998

(regardless of option chosen at retirement)

Table B (on page 7)

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~~-or-~~

Retirement Effective Date

on or after January 1, 1998

and receiving an Unmodified Allowance

or Option 1 Benefit

Table B (on page 7)

~~-or-~~

Retirement Effective Date

on or after January 1, 1998

and receiving Option 2, 2W, 3, 3W, or 4

Table C (on page 9)

Table A - Simplified Safe Harbor Method

Retirement Effective Date

after July 1, 1989

but before

November 19, 1996

(Any retirement option)

Since the 1989-tax year, CalPERS has used the “Safe Harbor” tax method to determine taxable income. This means the non-taxable portion of your allowance is based solely on your age at retirement AND contributions that are already taxed.

- If you’re a retiree, survivor, or beneficiary for whom CalPERS uses the “Simplified Safe Harbor Method,” you are *not* required to use this method when you report your taxes, but may elect to use it instead of the “General Rule.”

- The taxable portion under the “Simplified Safe Harbor Method” may differ from the taxable portion under the “General Rule.”
- More information about the “Simplified Safe Harbor Method” can be found in the IRS Tax Form 1040 (or other relevant publications).
- If you were age 75 or older on your retirement effective date, you may *not* use the “Simplified Safe Harbor Method,” but you *must* use the “General Rule” instead.

Table A

1. Total dollar amount of pension received during the tax year. _____
2. Previously taxed contributions.
(Refer to your Notice of Benefit Approval letter (PERS-BAS-11) provided to you when you retired.) _____
3. Line 2 _____ \div Number of lifetime payments (see table below) = _____
Round two decimal places to the left.
4. Line 3 total \times number of months payments were received this year (normally 12 for a complete year).
5. Line 1 amount _____ $-$ Line 4 total = _____ (Your taxable pension for this year).

Use this table to determine your lifetime payments. Find your age at retirement and use the corresponding payment numbers.

| <u>Age at Retirement</u> | <u>Number of Lifetime Payments</u> |
|--------------------------|------------------------------------|
| 55 & under | 300 |
| 56-60 | 260 |
| 61-65 | 240 |
| 66-70 | 170 |
| 71 & over | 120 |

Table B - Simplified Method

Single Life Annuity

This table is based solely on your age at retirement.

Retirement Effective Date

after November 18, 1996

but *before* January 1, 1998

(regardless of option chosen at retirement)

- or -

Retirement Effective Date

on or *after* January 1, 1998

receiving an Unmodified Allowance

or Option 1 Benefit

Do not use Table B if your

●

Retirement Effective Date
is *before* November 19, 1996;
use the General Rule or the
Simplified Safe Harbor Method
(*Table A on page 5*)

Table B

1. Total dollar amount of pension received during the tax year. _____
2. Previously taxed contributions.
(*Refer to your Notice of Benefit Approval letter (PERS-BAS-11) provided to you when you retired.*) _____
3. Line 2 _____ \div Number of lifetime payments (see table below) = _____
Round two decimal places to the left.
4. Line 3 total \times number of months payments were received this year (normally 12 for a complete year).
5. Line 1 amount _____ $-$ Line 4 total = _____ (Your taxable pension for this year).

Use this table to determine your lifetime payments. Find your age at retirement and use the corresponding payment numbers.

| <u>Age at Retirement</u> | <u>Number of Lifetime Payments</u> |
|--------------------------|------------------------------------|
| 55 & under | 360 |
| 56-60 | 310 |
| 61-65 | 260 |
| 66-70 | 210 |
| 71 & over | 160 |

Table C - Simplified Method

Joint Life Annuity

Retirement Effective Date *on or after* January 1, 1998, with an Option 2, 2W, 3, 3W or 4.

This table is based on your age and the age of your beneficiary receiving a lifetime benefit.

Table C

1. Total dollar amount of pension received during the tax year. _____
2. Previously taxed contributions.
(Refer to your Notice of Benefit Approval letter (PERS-BAS-11) provided to you when you retired.) _____
3. Line 2 _____ \div Number of lifetime payments (see table below) = _____
Round two decimal places to the left.

4. Line 3 total \times number of months payments were received this year (normally 12 for a complete year).
5. Line 1 amount _____ – Line 4 total = _____ (Your taxable pension for this year).

Use this table to determine your age and the age of your beneficiary's lifetime benefits. Find your combined ages at retirement and use the corresponding lifetime payment number.

| <u>Combined Age of Annuitants at Retirement*</u> | <u>Number of Lifetime Payments</u> |
|--|------------------------------------|
| 110 or less | 410 |
| 111-120 | 360 |
| 121-130 | 310 |
| 131-140 | 260 |
| 141 or more | 210 |

* If you elected Option 4 and have more than one beneficiary designated to receive a lifetime benefit, *you must use the youngest beneficiary's age along with your age at retirement to determine the combined age of annuitants at retirement.*



Federal Tax Considerations

It is important to remember that you may be “penalized” by the Internal Revenue Service (IRS) if you do not withhold a sufficient amount. This means you could be charged up to 10 percent of the total dollar amount you did not withhold during your current tax year. To avoid the penalty, contact your local IRS office or tax advisor to ensure you are in compliance with the federal tax withholdings.

For more information about federal taxes, please contact your local IRS office or a tax advisor. You can obtain a free copy of “*Pension and Annuity Income*,” IRS Publication #575, by calling toll-free, (800) 829-1040, or visiting their web site at www.irs.ustreas.gov.

California State Taxes

Since federal legislation prohibits states from taxing the pension income of non-residents, if you reside outside the State, California State taxes will not be withheld from your CalPERS benefit without your authorization. While your CalPERS benefit is still California source income, there is no longer any California source tax for qualified non-residents. If you have questions about your California residency status or your California State taxes, contact the Franchise Tax Board (or visit their web site at www.ftb.ca.gov) or your tax advisor.



Tax Withholding Options

Now that you have used one of the tax worksheets, you need to determine the appropriate amount to withhold. Unless you specify how you would like your withholding, CalPERS will withhold taxes from your monthly retirement allowance based on a married person with three exemptions. By law, all CalPERS retirees whose allowances are taxable are required to select one of three tax withholding choices:

- to have no taxes withheld;
- to have a specific dollar amount withheld (you determine the amount for both federal and State withholding); or
- to have taxes withheld according to tax tables, based on marital status and number of exemptions.

If you chose one of the tax tables, taxes will not be withheld unless your gross allowance exceeds the minimum amount listed on the tax table for your filing status (i.e. single, married, number of dependents, etc.).

Tax Withholding Form

To direct CalPERS on how you want your withholdings, you need to complete a CalPERS State and Federal Tax Withholding form (PERS-PRS-W-4P/DE-4P). To get the form:

- visit our website at www.calpers.ca.gov;
- call CalPERS toll-free (800) 352-2238; or
- contact one of the CalPERS Regional Offices.

For More Information

CalPERS Benefit Services Division

P.O. Box 942711

Sacramento, CA 94229-2711

(916) 326-3232

(800) 352-2238

(916) 326-3240 – Telecommunications

Device for the Deaf

(916) 326-3934 – FAX

CalPERS Regional Offices

Refer to “*Do You Have the Right Number?*”

(PERS-PUB-19) for a directory of CalPERS
Regional Office locations.

CalPERS On-Line

www.calpers.ca.gov



While reading this material, remember that we are governed by the California Public Employees' Retirement Law. The statements in this booklet are general. The Retirement Law is complex and subject to change. If there is a conflict between the law and this booklet, any decisions will be based on the law and not this booklet.



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